



**Amahlathi Local Municipality
(Registration number EC124)
Annual Financial Statements
for the year ended 30 June 2014**

Amahlathi Local Municipality

(Registration number EC124)

Annual Financial Statements for the year ended 30 June 2014

General Information

Accounting Officer	B K Socikwa
Registered office	12 Maclean Street Stutterheim 4930
Postal address	Private Bag X 4002 Stutterheim 4930
Bankers	First National Bank Stutterheim
Auditors	Auditor-General South Africa

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
AGSA	Auditor - General South Africa

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The accounting officer is primarily responsible for the financial affairs of the municipality.

The accounting officer certifies that the salaries, allowances and benefits of the councillors as disclosed in the notes to the financial statements are within the upper limits of the framework envisaged by section 219 of the Constitution read in conjunction with the Remuneration of Public Office Bearers Act and Minister of Provincial and Local Governments determination in accordance with this Act.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors.

The annual financial statements set out on pages 4 to 76, which have been prepared on the going concern basis, were approved by the accounting officer on 29 August 2014 and were signed on its behalf by:

Accounting Officer
BK Socikwa

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Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013 Restated*
Assets			
Current Assets			
Inventories	4	1,088,639	2,133,876
Investments	5	5,007,661	134,692,767
Receivables from exchange transactions	6	6,431,111	7,364,128
Receivables from non-exchange transactions	7	2,488,920	1,934,003
VAT receivable	8	8,579,550	5,016,497
Short term portion of long term receivables	14	203,211	197,330
Cash and cash equivalents	9	141,067,594	12,809,807
		164,866,686	164,148,408
Non-Current Assets			
Investment property	10	52,593,662	3,155,311
Property, plant and equipment	11	410,438,149	353,448,518
Intangible assets	12	264,887	174,630
Heritage assets	13	563,500	563,500
Long term receivables	14	289,321	429,834
		464,149,519	357,771,793
Total Assets		629,016,205	521,920,201
Liabilities			
Current Liabilities			
Other financial liabilities	15	23,203	19,986
Finance lease obligation	16	9,080,280	223,905
Payables from exchange transactions	17	14,437,538	13,281,645
Consumer deposits	18	395,364	438,440
Employee benefit obligation	19	711,000	438,000
Unspent conditional grants and receipts	20	6,101,545	5,276,006
Provisions	21	4,122,897	2,505,524
		34,871,827	22,183,506
Non-Current Liabilities			
Other financial liabilities	15	617,970	641,810
Finance lease obligation	16	29,548,186	203,498
Employee benefit obligation	19	24,467,718	19,159,718
		54,633,874	20,005,026
Total Liabilities		89,505,701	42,188,532
Net Assets		539,510,504	479,731,669
Accumulated surplus		539,510,504	479,731,669

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Annual Financial Statements for the year ended 30 June 2014

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	22	32,250,353	34,628,397
Rental of facilities and equipment		380,682	300,850
Interest received - debtors		2,184,295	2,097,165
Miscellaneous other revenue		1,067,495	1,510,009
Interest received - investment	23	8,925,433	7,812,655
Total revenue from exchange transactions		44,808,258	46,349,076
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	9,293,519	8,630,427
Transfer revenue			
Government grants and subsidies	25	130,147,936	114,255,016
Donated assets	26	49,458,351	44,820,366
Fines		77,300	118,791
Motor vehicle registrations		3,029,656	2,491,292
Total revenue from non-exchange transactions		192,006,762	170,315,892
Total revenue		236,815,020	216,664,968
Expenditure			
Employee related costs	27	(57,571,357)	(43,152,028)
Remuneration of councillors	28	(12,693,165)	(10,783,492)
Vending management fee	29	(463,020)	(458,505)
Depreciation and amortisation	30	(22,864,544)	(18,551,238)
Finance costs	31	(4,255,692)	(262,218)
Debt impairment	32	(6,335,026)	(4,368,705)
Leave pay provision		(1,057,148)	(165,802)
Repairs and maintenance		(5,898,162)	(585,171)
Bulk purchases	34	(19,631,984)	(17,458,772)
General expenses	35	(46,266,087)	(38,275,755)
Total expenditure		(177,036,185)	(134,061,686)
Operating surplus		59,778,835	82,603,282
Surplus for the year		59,778,835	82,603,282

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	397,185,523	397,185,523
Adjustments		
Prior year adjustments (refer to note 41)	(57,136)	(57,136)
Balance at 01 July 2012 as restated	397,128,387	397,128,387
Changes in net assets		
Surplus for the year	82,603,282	82,603,282
Total changes	82,603,282	82,603,282
Balance at 01 July 2013 as restated	479,731,669	479,731,669
Changes in net assets		
Surplus for the year	59,778,835	59,778,835
Total changes	59,778,835	59,778,835
Balance at 30 June 2014	539,510,504	539,510,504

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Cash Flow Statement

Figures in Rand	Note(s)	2014	2013 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		91,783,968	40,845,574
Grants		130,147,936	120,675,000
Interest income		8,925,433	7,812,655
		<u>230,857,337</u>	<u>169,333,229</u>
Payments			
Employee costs		(57,571,357)	(53,776,683)
Suppliers		(128,828,248)	(62,604,278)
Finance costs		(105,379)	(218,423)
		<u>(186,504,984)</u>	<u>(116,599,384)</u>
Net cash flows from operating activities	36	<u>44,352,353</u>	<u>52,733,845</u>
Cash flows from investing activities			
Purchase of moveable and immovable assets	11	(80,931,487)	(42,270,418)
Proceeds from sale of property, plant and equipment	11	1,131,617	61,186
Purchase of other intangible assets	12	(144,561)	(103,678)
Increase/(Decrease) in Investments		129,685,106	(10,613,493)
Increase/(Decrease) in long term receivables		134,632	18,491
Net cash flows from investing activities		<u>49,875,307</u>	<u>(52,907,912)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(20,623)	(17,651)
Finance lease payments		34,050,750	(346,086)
Net cash flows from financing activities		<u>34,030,127</u>	<u>(363,737)</u>
Net increase/(decrease) in cash and cash equivalents		<u>128,257,787</u>	<u>(537,804)</u>
Cash and cash equivalents at the beginning of the year		12,809,807	13,347,611
Cash and cash equivalents at the end of the year	9	<u>141,067,594</u>	<u>12,809,807</u>

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	32,764,000	2,000,000	34,764,000	32,250,353	(2,513,647)	1
Rental of facilities and equipment	438,600	-	438,600	380,682	(57,918)	2
Interest received - debtors	1,500,000	-	1,500,000	2,184,295	684,295	3
Miscellaneous other revenue	640,700	-	640,700	1,067,495	426,795	
Interest received - investment	4,000,000	-	4,000,000	8,925,433	4,925,433	4
Total revenue from exchange transactions	39,343,300	2,000,000	41,343,300	44,808,258	3,464,958	

Revenue from non-exchange transactions

Taxation revenue

Property rates	8,534,000	1,100,000	9,634,000	9,293,519	(340,481)	5
Government grants and subsidies	103,191,000	(383,000)	102,808,000	130,147,936	27,339,936	6

Transfer revenue

Public contributions and donations	-	-	-	49,458,351	49,458,351	7
Fines	530,000	(3,000)	527,000	77,300	(449,700)	8
Motor vehicle registrations	1,157,000	-	1,157,000	3,029,656	1,872,656	9

Total revenue from non-exchange transactions	113,412,000	714,000	114,126,000	192,006,762	77,880,762	
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Total revenue	152,755,300	2,714,000	155,469,300	236,815,020	81,345,720	
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Expenditure

Employee related costs	(52,534,000)	(3,251,000)	(55,785,000)	(57,571,357)	(1,786,357)	10
Remuneration of councillors	(13,274,326)	-	(13,274,326)	(12,693,165)	581,161	11
Vending management fee	(487,778)	-	(487,778)	(463,020)	24,758	
Depreciation and amortisation	(7,034,204)	-	(7,034,204)	(22,864,544)	(15,830,340)	12
Finance costs	(95,658)	-	(95,658)	(4,255,692)	(4,160,034)	13
Debt impairment	(7,357,825)	-	(7,357,825)	(6,335,026)	1,022,799	14
Leave pay provision	(365,370)	-	(365,370)	(1,057,148)	(691,778)	15
Repairs and maintenance	(7,921,846)	-	(7,921,846)	(5,898,162)	2,023,684	16
Bulk purchases	(20,330,000)	-	(20,330,000)	(19,631,984)	698,016	
General Expenses	(51,773,000)	(8,996,000)	(60,769,000)	(46,266,087)	14,502,913	17

Total expenditure	(161,174,007)	(12,247,000)	(173,421,007)	(177,036,185)	(3,615,178)	
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Operating surplus	(8,418,707)	(9,533,000)	(17,951,707)	59,778,835	77,730,542	
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Capital Expenditure	(32,058,000)	221,000	(31,837,000)	(31,837,120)	(120)	18
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Surplus or (deficit)	(40,476,707)	(9,312,000)	(49,788,707)	27,941,715	77,730,422	
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Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(40,476,707)	(9,312,000)	(49,788,707)	27,941,715	77,730,422	
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Amahlathi Local Municipality

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Accounting Policies

1. Presentation of Annual Financial Statements

The financial statements have been prepared in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These accounting policies are consistent with the previous period.

Those standards of GRAP and interpretations of such standards applicable to the operations of the municipality, are therefore as follows:

Standards Issued and Effective

- GRAP 1 - Presentation of Financial Statements (as revised in 2010)
- GRAP 2 - Cash Flow Statements (as revised in 2010)
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010)
- GRAP 5 - Borrowing Costs
- GRAP 9 - Revenue from Exchange Transactions (as revised in 2010)
- GRAP 11 - Construction Contracts (as revised in 2010)
- GRAP 12 - Inventories (as revised in 2010)
- GRAP 13 - Leases (as revised in 2010)
- GRAP 14 - Events After the Reporting Date (as revised in 2010)
- GRAP 16 - Investment Property (as revised in 2010)
- GRAP 17 - Property Plant and Equipment (as revised in 2010)
- GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010)
- GRAP 21 - Impairment of non-cash-generating assets
- GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)
- GRAP 24 - Presentation of Budget Information in Financial Statements
- GRAP 25 - Employee Benefits
- GRAP 26 - Impairment of cash-generating assets
- GRAP 31 - Intangible Assets (replace GRAP 102)
- GRAP 100 - Non-current Assets held for Sale and Discontinued Operations (as revised in 2010)
- GRAP 102 - Intangible Assets
- GRAP 103 - Heritage Assets
- GRAP 104 - Financial Instruments

Standards Issued, Future Effective Date - can base accounting policy on, or early adopt

- GRAP 20 - Related Party Disclosures
- GRAP 18 - Segmental Reporting
- Improvements to Standards of GRAP

Interpretations

- IGRAP 1 - Applying the Probability Test on Initial Recognition of Exchange Revenue
- IGRAP 2 - Changes in Existing Decommissioning Restoration and Similar Liabilities
- IGRAP 3 - Determining Whether an Arrangement Contains a Lease
- IGRAP 4 - Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IGRAP 8 - Agreements for the Construction of Assets from Exchange Transactions
- IGRAP 10 - Assets Received from Customers
- IGRAP 13 - Operating Leases - Incentives
- IGRAP 14 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- IGRAP 16 - Intangible Assets - Website Costs (effective 1 April 2013)

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Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty

The preparation of financial statements in conformity with South African Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates. These include:

Trade receivables and other receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

On receivables an impairment loss is recognised in the surplus or deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate computed at the initial recognition.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including municipality specific variables and economic factors.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 21 - Provisions.

Employee benefit obligation

The present value of the employee benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in the Employee Benefit Obligation note 19 to the financial statements.

Effective interest method

The Municipality makes use of government bond rate to discount future cash flows in the event of it being material.

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Accounting Policies

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

The cost of self-constructed investment property is the cost at the date of completion.

The following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market related rentals or for capital appreciation, or for both and are not used for administrative purposes and that will not be sold within the next 12 months are classified as investment properties;
- Land held for currently undetermined future use. If the Municipality has not determined that it will use the land as owner-occupied property, or for a short term sale in the ordinary course of business, the land is regarded as being held for capital appreciation;
- A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the housing board on a commercial basis on behalf of the Municipality); and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall into the ambit of investment property, and shall be classified as Property, Plant and Equipment or Non-current Assets Held for Sale (where appropriate):

- Property held for sale in the ordinary course of operations;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property;
- Property that is being constructed or developed for future use as Investment Property;
- Property that is leased out under a finance lease;
- Property that is held to provide a social service and which also generates cash flows; and
- Property held for strategic purposes and or service delivery.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interest held under operating leases are classified and accounted for as investment property if property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property, provided that the property would otherwise meet the definition of investment property and the lessee uses the fair value model.

When classification is difficult, the criteria used to distinguish investment properties from owner-occupied and from property held for sale is established by using criteria that it can utilise to exercise judgment consistently in accordance with the definition of investment property and with the related guidance.

Investment property is unrecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

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Accounting Policies

1.2 Investment property (continued)

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Subsequent to initial recognition, Investment property is carried at cost less accumulated depreciation and impairment. No depreciation is recognised where the residual value of the property exceeds the historical cost of the Investment property.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one reporting period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on the acquisition date, or in the case of assets acquired by grant or donation, deemed cost being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary cost of dismantling and removing the asset and restoring the site on which is located.

Where an asset is acquired by the Municipality for no or nominal consideration (i.e. Non-exchange transaction), the cost is deemed to be equal to the fair value of the asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or assets, or a combination of assets and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is unrecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Subsequent to initial measurement Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

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Accounting Policies

1.3 Property, plant and equipment (continued)

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Land is not depreciated as it is regarded as having an infinite life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost or revalued amounts to their residual values over the over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the assets future economic benefits or service potential are expected to be consumed by the Municipality. Components of assets that are significant in relation to the whole asset or the and that have different useful lives, are depreciated separately.

Depreciation only commences when the asset is available for use, unless stated otherwise.

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or service potential associated with the expenditure will flow to the municipality and the cost can measured reliably. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the Municipality replaces parts of an asset, it derecognises the part of the asset that is being replaced and capitalises the new component.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in the surplus or deficit when the compensation becomes receivable.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Infrastructure	
• Roads and paving	10-50 years
• Cemeteries	15-30 years
• Airports	20-25 years
• Housing	Not depreciated
Community	
• Assets under construction	Not depreciated
• Electricity	10-50 years
Other	
• Buildings	10-30 years
• Plant and machinery	4-15 years
• Office and IT equipment	5 years
• Furniture and fittings	7 years

The residual value, the useful life and depreciation method of each asset are reviewed at least at of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset.

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1.3 Property, plant and equipment (continued)

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Incomplete construction work

Incomplete construction work is stated at historical cost, depreciation only commences when the asset is available for use.

Finance leases

Assets capitalised under a finance leases are depreciated over the expected useful lives on the same basis as property, plant and equipment controlled by the municipality, or where shorter the term of the relevant lease if there is no reasonable surety that the Municipality will obtain ownership by the end of the lease term.

Infrastructure assets

Infrastructure assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

Derecognition of property, plant and equipment assets

The carrying amount of an item of property, plant equipment is derecognised on disposal, or when no future economic benefits or service potential are expected to flow from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not included in revenue. These are included in other income.

Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated depreciation and accumulated impairment losses) and the sales proceeds. This is included in the statement of financial performance as a gain or loss on disposal of property, plant and equipment.

1.4 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

Subsequent to initial measurement Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

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1.4 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

If the expectations from previous estimates change, the change is treated as a change in accounting estimate.

Where an intangible asset is acquired in exchange for a non-monetary asset, or a combination of monetary and non-monetary assets, the asset is initially measured at fair value (cost). If the fair value cannot be determined, its deemed cost is the carrying amount of the asset given up.

Intangible assets are assessed annually for impairment, with any reduction in the carrying amount reflected through the surplus or deficit in the period incurred.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, for example servitudes obtained by the Municipality give the Municipality access to land for specific purposes for an unlimited period however such intangible assets are subject to an annual impairment test.

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount which is calculated at the lower of the value in use and the fair value less cost to sell.

The estimated useful life and amortisation methods are reviewed annually at the end of each financial year. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the statement of financial performance for the year.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the proceeds and the carrying amount of the intangible asset. The gain or loss is recognised in the period in which it is incurred through the surplus or deficit for the period.

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1.5 Heritage assets

Class of heritage assets means a grouping of heritage assets of a similar nature or function in the municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An inalienable item is an asset that the municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Transitional provision

The municipality changed its accounting policy for heritage assets in 2013. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure heritage assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Heritage assets. Heritage assets have accordingly been recognised at provisional amounts, as disclosed in note 13. The transitional provision expires on 30/06/2016.

Until such time as the measurement period expires and heritage assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on (to the extent that these Standards prescribe requirements for heritage assets):

- Presentation of Financial Statements (GRAP 1);
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4);
- Leases (GRAP 13);
- Segment Reporting (GRAP 18); and
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100).

The exemption from applying the measurement requirements of the Standard of GRAP on Heritage assets implies that any associated presentation and disclosure requirements need not be complied with for heritage assets not measured in accordance with the requirements of the Standard of GRAP on Heritage assets.

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Derecognition is the removal of a previously recognised financial asset or financial liability from the municipality's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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1.6 Financial instruments (continued)

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

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1.6 Financial instruments (continued)

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade and other receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables from non exchange transactions	Financial asset measured at amortised cost
Long term receivables	Financial asset measured at amortised cost
Investments	Financial asset measured at fair value
Bank and cash	Financial asset measured at fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at fair value
Other financial liabilities	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Gains and losses

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

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1.6 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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1.7 Leases

The Municipality as a Lessee

Leases are classified as finance leases where substantially all the risks and rewards of ownership are transferred to the Municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the asset or if lower the present value of the minimum lease payments determined at the inception of the lease. Corresponding liabilities are included as finance lease liabilities. The corresponding liabilities are initially recognised at the inception of the lease and measured at the sum of the minimum lease payments discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payment and unguaranteed residual values to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the capital and finance costs portions using the effective interest method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangible assets. The lease liability is reduced by the lease payments, which are allocated between finance costs and capital repayment using the effective interest method. Lease finance costs are expensed when incurred. The accounting policies relating to the derecognition of financial instruments are applied to lease payables. The leased asset is depreciated over the shorter of the useful life of the asset or the lease term.

The Municipality as a lessor

Operating lease rental income is recognised on a straight line over the term of the relevant lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease if it is practicable to determine. If not the rate for the government bond with a maturity similar to the lease is used.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in statement of financial performance.

1.8 Inventories

Inventories comprise current assets held for sale or for consumption during the ordinary course of business are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories comprise current assets held for sale or for consumption during the ordinary course of business are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

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1.8 Inventories (continued)

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Subsequent to initial measurement

Consumable stores, raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value. In general the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost or current replacement cost.

Redundant and slow moving inventory items are identified and written down from cost to net realisable value with regards to their estimated economic or realisable values and sold at public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the statement of financial performance in the year in which they arise. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period in which the is sold, utilised or written off unless it qualifies for capitalisation to the cost of an asset.

Current replacement cost is the cost to replace the item at the current reporting date.

The cost of inventories comprises all costs of purchase, conversion and other costs necessary to bring the item to their present location and condition. Where inventory is manufactured, constructed or produced the cost includes the cost of labour, material and overheads used during the manufacturing process.

The cost of inventories of items that are not ordinarily interchangeable and goods and services produced and segregated for specific projects is assigned using the specific identification of the individual costs.

1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated municipality, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

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1.9 Impairment of cash-generating assets (continued)

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification of a potential impairment

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Recognition and measurement (individual assets)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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1.9 Impairment of cash-generating assets (continued)

Recognition and measurement (cash-generating units)

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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1.9 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.10 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated municipality, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and value added taxes.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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1.10 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification of a potential impairment

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement of non-cash generating units

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP 21 - Impairment of non-cash generating assets.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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1.10 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 Employee benefits

Employee benefits are all forms of consideration given by an municipality in exchange for service rendered by employees.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

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Accounting Policies

1.11 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- plus any liability that may arise as a result of a minimum funding requirement.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

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1.11 Employee benefits (continued)

Other post retirement obligations

The municipality provides post-retirement health care medical aid benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.12 Provisions

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Future events that may affect the amount required to settle the obligation are reflected in the amount of the provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of an asset are taken into account in measuring a provision.

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Accounting Policies

1.12 Provisions (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the municipality consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.9 and 1.10.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts, VAT and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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Accounting Policies

1.13 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest

Revenue arising from the use by others of the municipality assets yielding interest or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Service Charges

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue without being invoiced.

Adjustments to provisional estimates of consumption are made in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. The tariffs are determined per category of property usage and levied monthly based on the number of refuse containers on each property, regardless of whether or not the containers are emptied during the month.

Finance Income

Interest earned on investments is recognised in the statement of financial performance on the time apportionment basis taking into account the effective yield on the investment.

Tariff Charges

Revenue arising from the application of the approved tariffs is recognised when the service is rendered by applying the relevant authorising tariff. This includes the issue of licenses and permits.

Income from Agency Services

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Accounting Policies

1.13 Revenue from exchange transactions (continued)

Income from agency services is recognised on a monthly basis once the income collected on behalf of the agents has been quantified. The income is recognised in terms of the agency agreement.

Rentals

Revenue from the rental of facilities and equipment classified as operating leases is recognised over the term of the lease agreement, where such terms spans over more than one financial year a straight-line basis is used.

1.14 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

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Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

Rates, including collection charges, penalties and interest

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time apportionment basis with reference to the principle amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from the revenue.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets (revenue) arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting municipality.

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1.14 Revenue from non-exchange transactions (continued)

Gifts and donations, including goods in-kind

Donations are recognised on a cash receipts basis or where the donation is in the form of; property, plant and equipment, when such items are available for use.

Public Contributions

Revenue from public contributions is recognised when all the conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such item of property, plant and equipment are brought into use.

Where contributions have been received, but the conditions have not yet been met, a liability is recognised.

Government Grants

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria or conditions attached, where conditions have not been met, a liability is raised.

Government grants that are received as compensation for expenses or losses incurred or for the purpose of giving immediate financial support with no future related costs are recognised in the statement of financial performance in the year in which they have been received.

Interest earned on investments is treated in accordance with the grant conditions. If it is payable to the founder it is recorded as part of the creditor, and if it is the municipality's interest, it is recognised as interest earned in the statement of financial performance in the period in which it is received.

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of revenue can be measured reliably; and
- to the extent that the conditions have been discharged and there has been compliance with any restrictions associated with the grant.

Other grants and donations

The Municipality transfers money to individuals or organisations and other sectors of government from time to time, when making these transfers the municipality does not.

- receive goods or services in return as would be expected in a purchase or sale transaction;
- expect to be repaid in future; and
- expect a financial return as would be expected from an investment.

These transfers are recognised in the statement of financial performance in the period that the events giving rise to the transfer occurred.

1.15 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.16 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

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Accounting Policies

1.16 Borrowing costs (continued)

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.9 and 1.10. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Extended periods is periods that exceeds 12 months.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the municipality ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. The nature and reason for the reclassification are disclosed in the comparative figure note 42 to the financial statements.

1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.
expenditure not in terms of the conditions of the allocation from another sphere of Government, Municipality or Organ of State and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003).

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Unauthorised expenditure is accounted for as an expense in the statement of financial performance. If the expenditure is not certified as irrecoverable by the council it is treated as an asset until it is recovered or written off as irrecoverable.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

If the expenditure is not subsequently certified as irrecoverable by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

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1.20 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act 56 of 2003), the Municipal Systems Act (Act 32 of 2000), and the Public Office Bearers Act (Act 20 of 1998), or is in contravention of the municipality's supply chain management policies.

Irregular expenditure excludes unauthorised expenditure.

Irregular expenditure is accounted for as an expense in the statement of financial performance. If the expenditure is not certified as irrecoverable by Council it is treated as an asset until it is recovered or written off.

1.21 Revenue from recovery of Unauthorised, Irregular, Fruitless and wasteful expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery from the responsible Councilors or officials is virtually certain. Such revenue is based on legislated procedures.

1.22 Presentation of currency

These financial statements are presented in South African Rand (Rounded to the nearest Rand), which is the Municipality's functional currency.

1.23 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.24 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.25 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts in the annual financial statements. Refer to note 49.

1.26 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

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Accounting Policies

1.27 Change in accounting policy, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 - Accounting policies, changes in accounting estimate and errors, requirements except to the extent that it is impracticable to determine the period-specific effects or the accumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective restatement is practicable. Details of the changes in accounting policy are disclosed in the notes to the financial statements where applicable.

Changes in accounting estimate are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 except to the extent that it is impracticable to determine the period specific effects or the cumulative affect of the error. In such cases the municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective treatment is practicable. Details of the prior period errors are disclosed in the note 41 to the financial statements where applicable.

1.28 Commitments

Items are classified as a commitment when the Municipality has committed itself to future transactions that will normally result in an outflow of resources embodying economic benefits or service potential. A commitment is disclosed to the extent that it has not already been recognised anywhere else in the financial statements.

At the end of each financial period the Municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed in the commitments note 38 to the financial statements.

1.29 Contingent assets and contingent liabilities

The municipality does not recognise contingent liabilities or contingent assets, but discloses them.

A contingent liability is a possible outflow of resources embodying economic benefits or service potential that is subject to a future event.

A contingent asset is where an inflow of economic benefits is probable. Contingent assets and contingent liabilities are disclosed in note 39.

1.30 Events after reporting date

Events after reporting date that are classified as adjusting events have been accounted for in the financial statements. Non-adjusting events have been disclosed in the notes to the financial statements.

1.31 Going concern

The Annual Financial Statements have been prepared on a going concern basis.

1.32 Value Added Tax (VAT)

Output VAT is levied on taxable supplies in terms of the Value Added Tax Act.

Input VAT is claimed on those supplies allowed in terms of the Value Added Tax Act.

Where input VAT exceeds output VAT the Municipality recognises a receivable for VAT. Where output VAT exceeds input VAT the Municipality would recognise a payable for VAT.

The Municipality accounts for VAT on a payments basis.

Notes to the Annual Financial Statements

Figures in Rand

2014

2013

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the Municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 25: Employee benefits	01 April 2013	Impact is material, refer to note 2. Changes in accounting policy, note 41 prior period errors and note 42. Comparatives.
GRAP 1 (as revised 2012): Presentation of Financial Statements	01 April 2013	No material impact
GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors	01 April 2013	No material impact
GRAP 9 (as revised 2012): Revenue from Exchange Transactions	01 April 2013	No material impact
GRAP 12 (as revised 2012): Inventories	01 April 2013	No material impact
GRAP 13 (as revised 2012): Leases	01 April 2013	No material impact
GRAP 16 (as revised 2012): Investment Property	01 April 2013	No material impact
GRAP 17 (as revised 2012): Property, Plant and Equipment	01 April 2013	No material impact
GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)	01 April 2013	No material impact
IGRAP16: Intangible assets website costs	01 April 2013	No material impact
IGRAP1 (as revised 2012): Applying the probability test on initial recognition of revenue	01 April 2013	No material impact

2.2 Standards and interpretations issued, but not yet effective

The Municipality has not applied the following standards and interpretations, which have been published and are mandatory for the Municipality's accounting periods beginning on or after 01 July 2014 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 18: Segment Reporting	01 April 2016	No material impact
GRAP 20: Related parties	01 April 2014	No material impact
GRAP108: Statutory Receivables	01 April 2015	No material impact

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Notes to the Annual Financial Statements

	2014	2013 Restated*
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3. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

- GRAP 103 - Heritage assets
- GRAP 25 - Employee Benefits

GRAP 103 - Heritage assets

During the year, the municipality changed its accounting policy with respect to the treatment of Heritage assets. In order to conform with the benchmark treatment of GRAP103 – Heritage assets. The municipality will apply the transitional period as per Directive 4, for initial adoption of the GRAP standard, thus will measure the Heritage assets according to GRAP 17 - Property, plant and equipment as previously classified under this standard.

The requirements have been applied retrospectively, therefore the prior year figures have been restated as listed below.

GRAP 25 - Employee benefits

During the year, the municipality changed its accounting policy with respect to the treatment of Long service awards. In order to conform with the benchmark treatment of GRAP25 – Employee benefits. The Long service award was previously disclosed and accounted under GRAP 19 – Non-Current provisions.

Statement of financial position

Property, plant and equipment

	2013	Prior years
Previously stated	353,573,876	285,064,530
Change in accounting policy - Heritage assets	(563,500)	(563,500)
Prior period error - Finance Lease not recognised	8,446	-
Prior period error - Computer equipment	16,536	-
Prior period error - Furniture and office equipment	23,053	-
Prior period error - Machinery and equipment	18,992	-
Prior period error - Transport assets	371,115	-
	353,448,518	284,501,030

Heritage assets

Previously stated	-	-
Change in accounting policy (Per above)	563,500	563,500
	563,500	563,500

Employee benefit obligation

Previously stated	-	-
Change in accounting policy - Long service awards	567,956	603,793
Prior period error (refer to note 41)	1,229,044	1,070,207
	1,797,000	1,674,000

Provisions

Previously stated	3,073,480	3,309,953
Change in accounting policy - Long service awards	(567,956)	(603,793)
	2,505,524	2,706,160

* See Note 3 & 41

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	2014	2013 Restated*
4. Inventories		
Electricity	979,456	2,070,387
Rates and general	103,246	57,552
Water	5,937	5,937
	1,088,639	2,133,876

Included in the inventory balances above are the following types of inventory:

Electricity

Electrical sockets, plugs, meter boxes and other smaller items.

Rates and General

Cleaning materials, staff refreshments (coffee, tea, milk etc.), stationery, fuel and other smaller items.

Water

Pumps, valves, sockets and other smaller items, which were used to repair any faults when the municipality still performed the water services.

Inventory pledged as security

None of the inventory was pledged as security during the period.

5. Investments

At fair value

Investec - 450	-	75,694,439
Investec - 455	-	15,764,527
First National Bank- 62063171351	219,580	215,243
First National Bank- 61381739619	99,878	18,350
First National Bank- 74200629770	1,166,837	1,112,231
First National Bank- 74188016669	3,104,988	2,959,680
First National Bank- 74193195797	416,378	396,892
First National Bank- 74263885682	-	15,733,586
First National Bank -74273914207	-	22,797,819
	5,007,661	134,692,767

Current assets

At fair value	5,007,661	134,692,767
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Terms and conditions

Funds invested relate to call and fixed deposit accounts which earn a return of between 5% and 6%. Investments in fixed deposits do not exceed a term of three months and are either reinvested or utilised at the end of the three month term.

Funds are invested according to National Treasury municipal investment regulations dated 1st April 2005 on Gazette no. 27431 which set out a framework within which all municipalities shall conduct their cash management and investments.

6. Receivables from exchange transactions

Trade debtors	38,980,061	38,870,137
Trade debtors impairment	(37,083,493)	(36,358,131)
Leave Gratuity - Debtor	10,949	8,002
Other debtors	4,523,594	4,844,120
	6,431,111	7,364,128

* See Note 3 & 41

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2014	2013 Restated*
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6. Receivables from exchange transactions (continued)

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterpart default rates:

Trade receivables

Counterparties with external credit rating (Moody's)

A (Government)	932,838	781,610
B (Business)	2,133,777	673,071
C (Domestic and other)	2,361,719	1,057,325
	5,428,334	2,512,006

Exchange transactions - 2014

	Gross Balances	Impairment	Total
Electricity	5,251,432	(4,994,370)	257,062
Refuse	21,361,999	(20,316,308)	1,045,691
Other	12,366,630	(11,772,815)	593,815
	38,980,061	(37,083,493)	1,896,568

A – The debtors are of good quality no default in payment is expected.

B – These debtors are usually good payers, but there is a possibility that the debtor might not be able to pay on time.

C – These debtors usually pay but have previously paid late and therefore there is a possibility that these debtors will not be recoverable.

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2014, R 5,428,334 (2013: R 2,512,006) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	3,074,978	1,712,959
2 months past due	1,431,993	351,443
3 months past due	921,363	447,604

* See Note 3 & 41

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	2014	2013 Restated*
6. Receivables from exchange transactions (continued)		
Trade and other receivables impaired		
As of 30 June 2014, trade and other receivables of R 38,980,061 (2013: R 38,870,137) were impaired and provided for.		
The amount of the provision was R (37,083,493) as of 30 June 2014 (2013: R (36,358,131)).		
Reconciliation of provision for impairment of trade and other receivables		
Opening balance	36,358,131	32,960,855
Provision for impairment	4,157,476	3,397,276
Amounts written off as uncollectible	(3,432,114)	-
	37,083,493	36,358,131
7. Receivables from non-exchange transactions		
Assessment rates	15,518,255	14,708,482
Debt Impairment	(13,029,335)	(12,774,479)
	2,488,920	1,934,003
Receivables from non-exchange transactions past due but not impaired		
Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired.		
At 30 June 2014, R 546,871 (2013: R 1,934,003) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	310,061	1,613,496
2 months past due	130,602	125,042
3 months past due	106,208	195,465
Receivables from non-exchange transactions impaired		
As of 30 June 2014, other receivables from non-exchange transactions of R 15,518,255 (2013: R 14,708,482) were impaired and provided for.		
The amount of the provision was R (13,029,335) as of 30 June 2014 (2013: R (12,774,479)).		
Reconciliation of provision for impairment of receivables from non-exchange transactions		
Opening balance	12,774,479	11,803,051
Provision for impairment	570,795	971,428
Amounts written off as uncollectible	(315,939)	-
	13,029,335	12,774,479
8. VAT receivable		
VAT	8,579,550	5,016,497

* See Note 3 & 41

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	2014	2013 Restated*
9. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	6,116	5,166
Bank balances	141,061,478	12,804,641
	141,067,594	12,809,807

Special terms and conditions

The Municipality has a contingent facility of R835,800 relating to the bank and cash balances.

Cash and cash equivalents guarantees

Guarantee for Department of Minerals and Energy	73,700	73,700
Guarantee for Eskom	762,100	762,100

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2014	30 June 2013	30 June 2012	30 June 2014	30 June 2013	30 June 2012
First National Bank Cheque Account (Primary Bank Account) :53813535227	138,521,428	6,130,552	9,272,736	133,985,118	2,775,224	8,516,917
First National Bank Current Account:62116156987	11,135,971	1,859,334	5,333,182	5,616,780	1,859,334	2,786,046
First National Bank Call Account :62135193770	1,459,580	8,170,083	2,039,632	1,459,580	8,170,083	2,039,632
Total	151,116,979	16,159,969	16,645,550	141,061,478	12,804,641	13,342,595

10. Investment property

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	52,593,662	-	52,593,662	3,155,311	-	3,155,311

Reconciliation of investment property - 2014

	Opening balance	Additions	Total
Investment property	3,155,311	49,438,351	52,593,662

Reconciliation of investment property - 2013

	Opening balance	Total
Investment property	3,155,311	3,155,311

* See Note 3 & 41

Amahlathi Local Municipality

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Notes to the Annual Financial Statements

2014

2013
Restated*

10. Investment property (continued)

Details of property

Other Information

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality. The municipality has developed a comprehensive asset register encompassing movable assets, land, buildings and infrastructure assets.

Other than the donated assets mentioned below, the investment property includes land registered under the name of the municipality.

Assets Donated by Aspire

During the financial year ended 30 June 2014, Aspire donated a Mlungisi Mall to the Municipality, which was completed at year end and transferred to the Municipality, and as a result it has been included in the fixed assets register as part of the additions for the period.

Refer to note 26.

11. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	6,369,263	-	6,369,263	6,369,263	-	6,369,263
Buildings	57,609,550	(9,460,692)	48,148,858	57,409,204	(7,108,796)	50,300,408
Machinery and equipment	4,439,909	(1,074,551)	3,365,358	3,615,541	(714,908)	2,900,633
Furniture and office equipment	2,455,962	(1,709,922)	746,040	2,248,448	(1,415,113)	833,335
Transport assets	31,673,498	(9,447,631)	22,225,867	29,683,848	(7,380,052)	22,303,796
Computer equipment	2,647,148	(916,952)	1,730,196	1,997,130	(783,193)	1,213,937
Infrastructure	293,980,652	(52,247,548)	241,733,104	258,403,246	(39,862,835)	218,540,411
Electricity	40,761,194	(12,370,254)	28,390,940	39,717,020	(10,452,654)	29,264,366
Capital Work in Progress	5,439,656	-	5,439,656	15,453,161	-	15,453,161
Plant - Leased Asset	47,349,305	(789,115)	46,560,190	-	-	-
Office Equipment - Leased Asset	1,103,427	(891,886)	211,541	1,071,905	(689,387)	382,518
Cemeteries	1,256,961	(324,226)	932,735	1,256,961	(269,933)	987,028
Airports	1,127,000	(225,400)	901,600	1,127,000	(180,320)	946,680
Landfill sites	4,910,091	(1,227,290)	3,682,801	4,910,091	(957,109)	3,952,982
Total	501,123,616	(90,685,467)	410,438,149	423,262,818	(69,814,300)	353,448,518

* See Note 3 & 41

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Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

	2014	2013 Restated*
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11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	6,369,263	-	-	-	-	6,369,263
Buildings	50,300,408	200,347	-	-	(2,351,897)	48,148,858
Machinery and equipment	2,900,633	848,657	(12,765)	-	(371,167)	3,365,358
Furniture and office equipment	833,335	251,909	(13,863)	-	(325,341)	746,040
Transport assets	22,303,796	4,270,056	(785,564)	-	(3,562,421)	22,225,867
Computer equipment	1,213,937	794,125	(39,901)	-	(237,965)	1,730,196
Infrastructure	218,540,411	20,774,360	-	14,803,046	(12,384,713)	241,733,104
Electricity	29,264,366	1,621,665	(279,524)	-	(2,215,567)	28,390,940
Work in progress	15,453,161	4,789,541	-	(14,803,046)	-	5,439,656
Plant - Leased Asset	-	47,349,305	-	-	(789,115)	46,560,190
Office Equipment - Leased Asset	382,518	31,522	-	-	(202,499)	211,541
Cemeteries	987,028	-	-	-	(54,293)	932,735
Airports	946,680	-	-	-	(45,080)	901,600
Landfill sites	3,952,982	-	-	-	(270,181)	3,682,801
	353,448,518	80,931,487	(1,131,617)	-	(22,810,239)	410,438,149

* See Note 3 & 41

Amahlathi Local Municipality

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Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

	2014	2013 Restated*
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11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	6,369,263	-	-	-	-	6,369,263
Buildings	37,602,399	14,764,383	-	240,080	(2,306,454)	50,300,408
Machinery and equipment	1,016,409	2,122,874	(25,525)	-	(213,125)	2,900,633
Furniture and office equipment	962,096	198,673	(22,931)	-	(304,503)	833,335
Transport assets	9,964,490	14,993,634	-	-	(2,654,328)	22,303,796
Computer Equipment	434,792	936,092	(12,730)	-	(144,217)	1,213,937
Infrastructure	172,965,563	38,311,707	-	17,303,018	(10,039,877)	218,540,411
Electricity	31,027,298	443,140	-	-	(2,206,072)	29,264,366
Work in progress	18,190,758	14,805,501	-	(17,543,098)	-	15,453,161
Office Equipment - Leased Asset	656,195	8,589	-	-	(282,266)	382,518
Cemeteries	1,041,321	-	-	-	(54,293)	987,028
Airports	991,760	-	-	-	(45,080)	946,680
Landfill sites	3,278,686	944,477	-	-	(270,181)	3,952,982
	284,501,030	87,529,070	(61,186)	-	(18,520,396)	353,448,518

Pledged as security

Carrying value of assets pledged as security:

Office Equipment - Leased Assets	211,541	382,518
Plant - Leased Assets	46,560,190	-

Leased assets are pledged as security over the finance lease obligation.

Other information

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Property , plant and equipment has been restated due to a prior period error, refer to note 41 for details.

* See Note 3 & 41

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2014

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Restated*

12. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	402,015	(137,128)	264,887	257,454	(82,824)	174,630

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software	174,630	144,561	(54,304)	264,887

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer software	101,796	103,678	(30,844)	174,630

13. Heritage assets

	2014			2013		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	563,500	-	563,500	563,500	-	563,500

Reconciliation of heritage assets 2014

	Opening balance	Total
Historical monuments	563,500	563,500

Reconciliation of heritage assets 2013

	Opening balance	Total
Historical monuments	563,500	563,500

* See Note 3 & 41

Amahlathi Local Municipality

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Notes to the Annual Financial Statements

	2014	2013 Restated*
13. Heritage assets (continued)		
Transitional provisions		
Heritage assets recognised at provisional amounts		
In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 3, certain heritage assets with a carrying value of R 563,500 (2013: R 563,500) were recognised at provisional amounts. Carrying amounts of heritage assets carried at provisional amounts are as follows:		
Due to initial adoption of GRAP 103		
Historical monuments	563,500	563,500
The date at which full compliance with GRAP 103 is expected, is 30 June 2016.		
14. Long term receivables		
Cost of HT Lines	492,532	623,528
Long term housing debtors	397,086	397,086
Other long term receivables	-	3,636
Less Provision for bad debts for long term housing debtors	(397,086)	(397,086)
Less Short term portion of HT Lines	(203,211)	(197,330)
	289,321	429,834
The cost of HT lines comprise trade debtors and interest is charged at 6% per annum.		
The cost of HT Lines for 2013 was restated, see note 41.		
The long term housing debtors have been previously fully impaired as recoverability was less than probable.		
15. Other financial liabilities		
At amortised cost		
Bank loan	641,173	661,796
Loans held by the Development Bank of South Africa bear interest between 10.25% and 16.033% per annum and are repayable over periods between five and thirty years.		
All loans will be paid by 2025.		
Non-current liabilities		
At amortised cost	617,970	641,810
Current liabilities		
At amortised cost	23,203	19,986

* See Note 3 & 41

Amahlathi Local Municipality

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Notes to the Annual Financial Statements

	2014	2013 Restated*
16. Finance lease obligation		
Minimum lease payments due		
- within one year	31,623,752	241,233
- in second to fifth year inclusive	49,760,633	219,768
	81,384,385	461,001
less: future finance charges	(42,755,919)	(33,598)
Present value of minimum lease payments	38,628,466	427,403
Present value of minimum lease payments due		
- within one year	9,080,280	223,905
- in second to fifth year inclusive	29,548,186	203,498
	38,628,466	427,403

The Finance lease obligation is made up of numerous rental agreements for office equipment the details are as follows:

Bond - R 201

Rate: 7.5%

Issue date: 27 May 2003

Redemption date - 21 December 2014

The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not it is the lessee incremental borrowing rate. Any initial direct costs of leases are added to the amount recognised as an asset.

Due to the nature of the information provided the implicit rate could not be determined, as the cost of the copiers is not provided in the agreement. Only the terms and the payment amount are provided.

The R 201 bond rate was used as the issue date and redemption date approximately matches the terms of the leases.

In addition, prime less 1.5% is considered reasonable in the market place for asset finance.

17. Payables from exchange transactions

Trade and other payables	10,793,496	10,771,770
Deposits received	189,677	115,605
Accrual for leave gratuity	3,454,365	2,394,270
	14,437,538	13,281,645

The Trade payables and other payables have been combined in the current year, and due to this the prior period had to be reclassified to be aligned with the disclosure. See note 42.

18. Consumer deposits

Electricity	395,364	438,440
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Consumer deposits are made of deposits from consumers for the electricity connections, for those making use of the conventional electricity.

* See Note 3 & 41

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	2014	2013 Restated*
19. Employee benefit obligations		
Defined benefit plan		
The benefit plan consist of the post retirement medical aid benefit plan and long service bonuses.		
Post retirement medical aid plan		
The Municipality operates six accredited medical aid schemes, namely:		
Bestmed		
Bonitas		
Discovery La Health		
Hosmed		
Key health		
Samwu		
Pensioners continue on the option they belonged to on the day of their retirement.		
The Independent valuers, PriceWaterhouseCoopers Actuarial services carried out a statutory valuation on 30 June 2014 (2013 PriceWaterhouseCoopers) Actuarial valuation services.		
Carrying value		
Present value of the defined benefit obligation	17,800,718	13,845,718
Service costs	905,000	737,000
Interest cost	1,623,000	1,264,000
Net actuarial gains or losses	3,147,000	2,358,000
Benefits paid	(499,000)	(404,000)
	22,976,718	17,800,718
Non-current liabilities	22,467,718	17,362,718
Current liabilities	509,000	438,000
	22,976,718	17,800,718
Assumptions used		
Assumptions used at the reporting date:		
Key assumptions used	2014	2013
Discount rates used	9.60 %	9.00 %
Net discount rates used	0.55 %	0.74 %
Medical cost trend rates	9.00 %	7.50 %
Other assumptions		
Pre retirement mortality	SA 85-90 L	SA 85-90 L
Post retirement mortality	PA (90)-1	PA (90)-1
Normal retirement age	63 years	63 years
Spouse age differences	3 years	3 years
(male older than female)		
AIDS	No assumption made	No assumption made
Membership data		
Female members	48	37
Male members	55	46

* See Note 3 & 41

Amahlathi Local Municipality

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Notes to the Annual Financial Statements

	2014	2013 Restated*
19. Employee benefit obligations (continued)		
Healthcare cost inflation sensitivity (R'000)	1% decrease	Base (9.00%) 1% increase
Defined benefit obligation	(19,530)	(22,977) (27,333)
Service Cost (next financial year)	(1,081)	(1,359) (1,728)
Interest Cost (next financial year)	(1,901)	(2,247) (2,681)
Long Services Awards		
The Long service Bonus for the portion of the next interval already rendered by the employee. The employee receives a Leave pay and % of salary amount for reaching certain interval (5 years, 10 years, 15 years etc). This provision is accrued for in terms of the collective bargaining agreement.		
The Long Service Bonus plans are defined benefit plans. As at year end, 261 (2013; 221) employees were eligible for Long Service Bonuses.		
The Long Service Award comparative figures have been reclassified from Non-current provisions to Employee benefit obligations. See note 42.		
Carrying value		
Present value of the defined benefit obligation	1,797,000	1,674,000
Service costs	292,000	174,000
Interest cost	135,000	131,000
Net actuarial gains or losses	54,000	139,000
Benefits paid	(76,000)	(321,000)
	2,202,000	1,797,000
Non-current liabilities	2,000,000	1,797,000
Current liabilities	202,000	-
	2,202,000	1,797,000
Assumptions used		
Assumptions used at the reporting date:		
	2014	2013
Key assumptions used		
Discount rates used	8.10 %	7.70 %
Net discount rates used	(0.83) %	(0.46) %
Salary inflation	9.00 %	8.20 %
Other assumptions		
Pre-retirement mortality	SA 85-90 L	SA 85-90 L
Normal retirement age	63 years	63 years
Number of Trading days per year	252	252
Membership data		
Female employees	73	60
Male employees	188	161

* See Note 3 & 41

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	2014	2013 Restated*
19. Employee benefit obligations (continued)		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Non Current portion of Post Retirement Benefits	(22,467,718)	(17,362,718)
Non Current portion of Long Term Services	(2,000,000)	(1,797,000)
Current portion of Post Retirement Benefits	(509,000)	(438,000)
Current portion of Long Term Services	(202,000)	-
	(25,178,718)	(19,597,718)
Non-current liabilities	(24,467,718)	(19,159,718)
Current liabilities	(711,000)	(438,000)
	(25,178,718)	(19,597,718)
Net expense recognised in the statement of financial performance		
Current service cost	1,197,000	911,000
Interest cost	1,758,000	1,395,000
Actuarial (gains) losses	3,201,000	2,497,000
Curtailment or settlement	(575,000)	(725,000)
	5,581,000	4,078,000
20. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Capacity of Municipality	594,068	611,668
Extended Public Works Programme	14,847	-
Finance management programme	389	9,926
LED Intern	-	77,154
LED promotions	286	-
MIG Funding	5,084,754	3,898,966
Municipal systems improvement	63	24
Recycling centre	376,417	648,268
Staff training	721	-
Vuna awards - Audit	30,000	30,000
	6,101,545	5,276,006
Movement during the year		
Balance at the beginning of the year	5,276,006	3,461,642
Grants received during the year	130,973,475	31,289,263
Income recognition during the year	(130,147,936)	(27,702,899)
Remitted back to funder	-	(1,772,000)
	6,101,545	5,276,006

See note 25 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

* See Note 3 & 41

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Notes to the Annual Financial Statements

	2014	2013 Restated*
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21. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Additions	Utilised during the year	Total
Provision for landfill sites	660,436	59,440	-	719,876
Bonuses	1,845,088	2,505,139	(1,325,806)	3,024,421
WCA	-	378,600	-	378,600
	2,505,524	2,943,179	(1,325,806)	4,122,897

Reconciliation of provisions - 2013

	Opening Balance	Additions	Utilised during the year	Total
Provision for landfill sites	605,400	55,036	-	660,436
Bonuses	2,100,760	1,845,088	(2,100,760)	1,845,088
	2,706,160	1,900,124	(2,100,760)	2,505,524

Provision for Landfill Site rehabilitation:

The Municipality has an obligation to restore one landfill sites situated in Stutterheim, ERF 80. The site is currently licensed and used for general waste disposal (Non-hazardous) purposes.

Provision for Service Bonuses:

A bonus provision is raised for the amount which the Municipality is obligated to pay employees.

Long Service awards:

The provision has been reclassified to Employee Benefits Obligation in note 19 as required by GRAP 25: Employee Benefits. See note 41 for the prior period error and 42 for the comparative restatement note.

WCA

The Municipality has an obligation to pay for the Workers Compensation Assistance (WCA), as a result a provision is raised based on the estimated amount to be paid, prior to the formal assessment by Labour Department.

22. Service charges

Sale of electricity	24,822,182	30,806,702
Refuse removal	7,421,669	3,745,647
Other service charges	6,502	76,048
	32,250,353	34,628,397

23. Interest received - investment

Interest revenue

Bank	8,925,433	7,812,655
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Investment interest is earned from the Municipal Investments in note 5 and the Municipal Bank accounts in note 9.

* See Note 3 & 41

Amahlathi Local Municipality

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	2014	2013 Restated*
24. Property rates		
Rates received		
Property rates	10,428,355	9,677,608
Less: Rebates	(1,134,836)	(1,047,181)
	9,293,519	8,630,427
Valuations		
Residential	643,687,755	641,009,155
Commercial	290,189,640	282,863,140
State	262,849,385	262,699,385
Municipal	37,137,300	38,287,300
Small holdings and farms	661,058,466	657,165,966
Public benefit organisations	19,122,000	18,942,500
Churches	15,609,500	17,289,500
Vacant land	62,860,535	61,171,335
Monuments	8,000	8,000
	1,992,522,581	1,979,436,281

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R 0.0080 (2013: R 0.0074) is applied to property valuations to determine assessment rates. Rebates of R 1,134,836 (2013: R 1,047,181) are granted to residential and state property owners.

Rates are levied on a monthly basis. Interest at prime per annum, is levied on rates outstanding two months after due date.

The new general valuation will be implemented on 01 July 2014.

* See Note 3 & 41

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Notes to the Annual Financial Statements

	2014	2013 Restated*
25. Government grants and subsidies		
Equitable share	96,720,000	90,283,000
Utilised operating grants	3,413,571	2,997,040
Library grant	1,105,000	1,105,000
Utilised Capital grants	27,924,212	18,869,976
Expanded Public works	985,153	1,000,000
	130,147,936	114,255,016

Equitable Share

Equitable share is received as the Municipalities allocation from the Division of Revenue Act (DoRA).

Municipal systems improvement

Balance unspent at beginning of year	24	395,619
Current-year receipts	890,000	800,000
Conditions met - transferred to revenue	(889,961)	(623,595)
Amount repaid	-	(572,000)
	63	24

Conditions still to be met - this remains as liabilities (see note 20).

The grant was obtained from the Cooperative Governance and Traditional affairs (Vote 3). The purpose of this grant is to assist the Municipality to build in house capacity to perform their functions and stabilise institutional and governance systems as required by the Municipal Systems Act No.32 of 2003.

LED promotions

Current-year receipts	51,000	-
Conditions met - transferred to revenue	(50,714)	-
	286	-

Conditions still to be met - this still remains as liabilities (see note 20).

Recycling centre

Balance unspent at beginning of year	648,268	1,474,898
Current-year receipts	251,163	-
Conditions met - transferred to revenue	(523,014)	(826,630)
	376,417	648,268

Conditions still to be met - this still remains as liabilities (see note 20).

* See Note 3 & 41

Amahlathi Local Municipality

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Notes to the Annual Financial Statements

	2014	2013 Restated*
25. Government grants and subsidies (continued)		
Vuna awards - audit		
Balance unspent at beginning of year	30,000	30,000
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	30,000	30,000

Conditions still to be met - this still remains as liabilities (see note 20).

The grant was obtained from the Department of Local Government and Housing.

Capacity of Municipality

Balance unspent at beginning of year	611,668	814,058
Conditions met - transferred to revenue	(17,600)	(202,390)
	594,068	611,668

Conditions still to be met - this still remains as liabilities (see note 20).

The grant was obtained from the Department of Local Government and Housing.

MIG Funding

Balance unspent at beginning of year	3,898,966	(154,175)
Current-year receipts	29,110,000	22,923,017
Conditions met - transferred to revenue	(27,924,212)	(18,869,876)
	5,084,754	3,898,966

Conditions still to be met - this still remains as liabilities (see note 20).

This Grant was received from the Department of Cooperative Governance and Traditional Affairs (Vote 3). The purpose of this grant is to provide specific finance for basic Municipal Infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.

Staff training

Balance unspent at beginning of year	-	116,077
Current-year receipts	66,911	(279,980)
Conditions met - transferred to revenue	(66,190)	163,903
	721	-

Conditions still to be met - this still remains as liabilities (see note 20).

The grant was obtained from the Sectoral Education Training Authority (SETA) for training of staff. In terms of the Skills Development Act regarding monies by SETA's published in Government Notice 990 in Government Gazette No. 35940, LG SETA is required to disburse in quarterly intervals.

* See Note 3 & 41

Amahlathi Local Municipality

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	2014	2013 Restated*
25. Government grants and subsidies (continued)		
LED Intern		
Balance unspent at beginning of year	77,154	10,794
Current-year receipts	229,400	66,360
Conditions met - transferred to revenue	(306,554)	-
	-	77,154

Conditions still to be met - this still remains as liabilities (see note 20).

The grant was received from the Department of Economic Development, Environmental Affairs and Tourism.

Extended Public Works Programme

Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(985,153)	(1,000,000)
	14,847	-

Conditions still to be met - this still remains as liabilities (see note 20).

This Grant is provided to to expand the Public Works programme and Job creation efforts. The Municipality is incentivised to use labour intensive delivery methods in the following areas:

- Road maintenance and the maintenance of buildings;
- Parks beautification;
- Waste management;
- Low traffic volume roads and rural roads.

Finance management programme

Balance unspent at beginning of year	9,926	774,371
Current-year receipts	1,550,000	1,500,000
Conditions met - transferred to revenue	(1,559,537)	(1,064,445)
Other	-	(1,200,000)
	389	9,926

Conditions still to be met - this still remains as liabilities (see note 20).

The grant is received to ensure sound and sustainable management of the fiscal and financial affairs of the Municipality. To promote and support reforms in financial management by building capacity in Municipalities to implement the Municipal Finance Management Act

26. Donated assets

Donation of ASPIRE assets	49,458,351	44,820,366
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This amount relates to assets (Mlungisi Mall see additions note 10) donated to the Municipality by Aspire and a donation by other parties.

* See Note 3 & 41

Amahlathi Local Municipality

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Notes to the Annual Financial Statements

	2014	2013 Restated*
27. Employee related costs		
Basic	39,118,842	28,655,354
Bonus	1,471,912	1,505,325
Medical aid - company contributions	1,678,504	1,836,726
UIF	302,800	240,274
Employee benefit movements	5,864,000	123,001
Travel, motor car, accommodation, subsistence and other allowances	354,800	307,386
Overtime payments	2,112,838	1,113,140
Acting allowances	128,710	70,185
Travel allowances	795,283	798,415
Housing benefits and allowances	30,813	30,807
Industrial Council Levy	57,202	16,372
Pension Fund Contributions by Council	5,655,653	8,455,043
	57,571,357	43,152,028
Remuneration of Municipal Manager		
Annual Remuneration	1,050,761	971,880
Contributions to UIF, Medical and Pension Funds	1,785	1,713
Cellphone allowance	6,000	-
Other	-	6,725
	1,058,546	980,318
Remuneration of Chief Financial Officer		
Annual remuneration	619,609	519,276
Car allowance	231,216	114,739
Contributions to UIF, Medical and Pension Funds	38,465	106,087
Cell allowance	8,400	7,000
Acting allowance	-	9,625
Other allowance	39,586	7,040
	937,276	763,767
Remuneration of Corporate Services Manager		
Annual remuneration	782,258	151,517
Contributions to UIF, Medical and Pension Funds	146,618	4,742
Cellphone allowance	8,400	1,400
Other allowance	-	21,021
	937,276	178,680
Remuneration of Engineering Services Manager		
Annual remuneration	776,487	527,219
Car allowance	-	95,567
Contributions to UIF, Medical and Pension Funds	152,389	126,471
Cellphone allowance	8,400	7,000
Acting allowance	-	14,964
	937,276	771,221

* See Note 3 & 41

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Notes to the Annual Financial Statements

	2014	2013 Restated*
27. Employee related costs (continued)		
Remuneration of Development and Planning Manager		
Annual remuneration	671,523	598,648
Car allowance	110,735	110,735
Contributions to UIF, Medical and Pension Funds	146,618	-
Cellphone allowance	8,400	-
	937,276	709,383
Remuneration of the Community Services Manager		
Annual remuneration	716,927	152,691
Car allowance	70,370	-
Contributions to UIF, Medical and Pension Funds	141,579	24,590
Cellphone allowance	8,400	1,400
	937,276	178,681
28. Remuneration of councillors		
Honourable Mayor	677,826	645,549
Speaker	542,261	516,438
Councillors' Salaries	7,137,239	6,554,769
Contributions to Medical, Pension Funds and UIF	989,169	894,380
Councillors' allowances	3,346,670	2,172,356
	12,693,165	10,783,492
Honourable Mayor		
Annual Remuneration	448,609	426,863
Travelling allowance	164,749	157,181
Contributions to UIF, Medical and Pension Funds	64,468	61,505
	677,826	645,549
Speaker		
Annual Remuneration	337,458	361,060
Travelling allowance	131,800	125,744
Contributions to UIF, Medical and Pension Funds	73,003	29,634
	542,261	516,438

The salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the Constitution

The Mayor and the speaker both use council vehicles for official purposes.

29. Vendor management fee

Management fees - third party	463,020	458,505
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The Municipality pays vendor management fees to Conlog, this service provider owns the system used to manage the sales of prepaid electricity to external outlets and the municipal office cashiers.

* See Note 3 & 41

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	2014	2013 Restated*
30. Depreciation and amortisation		
Property, plant and equipment	21,818,625	18,238,128
Intangible assets	54,304	30,844
Finance lease asset	991,615	282,266
	22,864,544	18,551,238
31. Finance costs		
Finance leases	4,150,313	43,795
Current borrowings	105,379	108,351
Other interest paid	-	110,072
	4,255,692	262,218
32. Debt impairment		
Debt impairment	6,335,026	4,368,705
33. Auditors' remuneration		
Auditors Remuneration	2,210,922	1,952,224
34. Bulk purchases		
Electricity	19,631,984	17,458,772

* See Note 3 & 41

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Notes to the Annual Financial Statements

	2014	2013 Restated*
35. General expenses		
Advertising	306,146	232,606
Audit Committee Fees	419,415	311,813
Audit Fees	2,210,922	1,952,224
Bank charges	251,431	211,052
Community development and training	3,379,844	2,181,053
Computer expenses	39,730	56,602
Consulting and professional fees	8,149,957	4,165,954
Consumables	282,282	203,190
Electricity	3,294,159	1,123,874
Electricity consumption (Street Lights)	1,119,812	1,448,514
Entertainment	531,868	237,374
Free basic electricity	5,924,239	5,687,834
Fuel and oil	3,954,638	2,626,888
IDP process plan	214,136	289,961
Insurance	3,651,093	2,911,376
Motor vehicle expenses	330,602	403,689
Other expenses	2,764,648	5,611,643
Plant hire	406,595	343,276
Postage and courier	417,067	149,432
Printing and stationary	806,014	627,728
Project maintenance costs	882,771	1,008,354
Promotions of LED	982,532	347,907
Protective clothing	(1,290)	149,200
Refuse	372,316	81,613
Security (Guarding of municipal property)	298,357	239,958
Service Charges	382,358	-
Skills development levy	169,553	318,859
Staff welfare	71,747	30,290
Subscriptions and membership fees	517,904	468,580
Telephone and fax	1,212,946	1,049,874
Training	2,412,885	1,299,558
Uniforms	277,128	135,309
VAT Assessment	-	2,227,219
Vehicle license fees	232,282	142,951
	46,266,087	38,275,755

* See Note 3 & 41

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Notes to the Annual Financial Statements

	2014	2013 Restated*
36. Cash flows from operating activities		
Surplus	59,778,835	82,603,282
Adjustments for:		
Depreciation and amortisation	22,864,544	18,551,238
Finance costs	4,150,313	43,795
Debt impairment	6,335,026	4,368,705
Movements in retirement benefit assets and liabilities	5,581,000	5,148,207
Movements in provisions	1,617,373	(200,636)
Other non-cash items (accumulated surplus movements)	-	(486,953)
Non- cash items (Donated Assets)	(49,438,351)	(44,820,366)
Changes in working capital:		
Inventories	1,045,237	13,370
Receivables from exchange transactions	(11,841,457)	(2,709,149)
Debt Impairment	(6,335,026)	(4,368,705)
Other receivables from non exchange transactions	12,219,562	(891,771)
Payables from exchange transactions	1,155,887	(4,227,476)
VAT	(3,563,053)	(2,133,986)
Unspent conditional grants and receipts	825,539	1,814,364
Consumer deposits	(43,076)	29,926
	44,352,353	52,733,845

37. Financial instruments disclosure

Categories of financial instruments

2014

Financial assets

	At fair value	At amortised cost	Total
Investments	5,007,661	-	5,007,661
Trade and other receivables from exchange transactions	-	6,431,111	6,431,111
Receivables from non-exchange transactions	-	2,488,920	2,488,920
Cash and cash equivalents	141,067,594	-	141,067,594
Short term portion of long term receivables	-	203,211	203,211
Long term receivables	-	289,321	289,321
	146,075,255	9,412,563	155,487,818

Financial liabilities

	At amortised cost	Total
Finance lease obligations	38,628,466	38,628,466
Other financial liabilities	641,173	641,173
Trade and other payables from exchange transactions	14,437,538	14,437,538
Unspent conditional grants	6,101,545	6,101,545
Consumer deposits	395,364	395,364
	60,204,086	60,204,086

* See Note 3 & 41

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Notes to the Annual Financial Statements

2014

2013
Restated*

Financial instruments disclosure (continued)

2013

Financial assets

	At fair value	At amortised cost	Total
Investments	134,692,767	-	134,692,767
Trade and other receivables from exchange transactions	-	7,364,128	7,364,128
Receivables from non-exchange transactions	-	1,934,003	1,934,003
Cash and cash equivalents	12,809,807	-	12,809,807
Short term portion of long term receivables	-	197,330	197,330
Long term receivables	-	429,834	429,834
	147,502,574	9,925,295	157,427,869

Financial liabilities

	At amortised cost	Total
Other financial liabilities	661,796	661,796
Trade and other payables from exchange transactions	13,281,645	13,281,645
Unspent conditional grants and receipts	5,276,006	5,276,006
Consumer deposits	438,440	438,440
	19,657,887	19,657,887

38. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	20,278,013	23,760,532
• Investment property	-	850,207
	20,278,013	24,610,739

The committed expenditure relates to capital expenditure for infrastructure projects that will be financed through a combination of MIG and own funding.

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	46,811	168,069
- in second to fifth year inclusive	-	46,811
	46,811	214,880

Operating lease payments represent rentals payable by the municipality for certain of its copier and printer leases. Leases are currently on month-to-month and the expenditure above is what is expected to be paid before their cancellation. No contingent rent is payable.

* See Note 3 & 41

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	2014	2013 Restated*
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39. Contingencies

A group of employees have instituted a claim against the municipality for the payment of their performance bonus, the estimated exposure would be equal to their performance bonuses of R1,500,000.

An employee is instituting a claim against the municipality for unfair dismissal, the estimated exposure is R1,500,000.

A claim for pain and suffering caused by laying false charge of fraud and theft resulting in the default judgment granted that led to the Court granting attachment of municipality goods by the Sheriff, the estimated exposure is R140,000..

There is a claim of R2,000 000 for personal damages from an open manhole.

Further to the above, there is pending outcome on the dispute regarding the wage curve and the matter is currently being dealt with in the High Court between SALGA, IMATU and SAMU, the amount can currently not be quantified but could result in the payment of the 14th cheque to the affected employees, and the process has yet to be carried by SALGA.

* See Note 3 & 41

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Notes to the Annual Financial Statements

2014

2013
Restated*

40. Related parties

Relationships

Accounting Officer

Members of key management

Refer to accounting officer's report note

BK Socikwa - Municipal Manager

B Ondala - Planning and development manager

M Quma - Corporate Services Manager

JN Ntshinga - Chief Financial Officer

O Kwababana - Engineering Services Manager

S Vara - Community Services Manager

Refer to note 27 for the disclosure of the remuneration of Key Management (s56 Managers).

The Councilors of the Municipality are as follows:

NR Magwaxaza (Speaker of Council)

M Peter (Mayor and Chair of Executive Committee)

KA Mhambi (Portfolio Head-Finance)

P Qaba (Portfolio Head-Development and Planning)

P Liwani (Portfolio Head-Service Delivery and Infrastructure)

Z Falo (Portfolio Head-Administration and Human Resources)

A Hobo (Portfolio Head-Social Services)

N Busika (Portfolio Community Empowerment)

N Nkunkuma

NP Mlahleki

NA Kato-Manyika

NE Tom

B Siko

MH Funani

M Mjikelo

B Jama

ZE Mfulana

A Mzamo

M Mani

ME Hejane

X Roji

NAD Ndlangalavu

T Pakade

MN Ngcofe

BA Lande

M Jack

RT Desi

TP Mpendu

N Ndodana

AE Hlalapi

CT Poni

S Malawu

NN Kumbaca

T Wellem

N Mkosona

N Nombamba

T Balindlela

PG Kyriacos

NJ Gxalaba

HE Govender

Councillors' remuneration is disclosed in note 28.

* See Note 3 & 41

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40. Related parties (continued)

Related party transactions

The following transactions were made to companies with members/directors who are in the service of the state:

Companies owned by people/spouses of people in the service of the state

2013/14

ICT Choice	357,076	-
Jotela Gen Trading	2,950	-
Maphiko Investments	291,473	-
Sijekula General Trading	11,748	-
Sondelani Transport	10,258	-
Spindrift Trading CC	3,880	-
Zizamele Thahla Gen Trading (Pty)Ltd	88,485	-
Samant Solutions Pty Ltd	2,000	-
Hyperia t/a Compucare	42,771	-
	810,641	-

41. Prior period errors

1. HT Lines - An amount of R207,528 was erroneously credited to the opening balance of the HT Line in 2012/13, leaving the total HT Lines balance understated by R207,528.
2. Long Service Awards - R1,229,044 was erroneously excluded in the 2012/13 calculation. In the prior year financial statements this was shown at R567,956 under provisions and this has been reclassified to Employee benefit obligations.
3. Operating Leases - In the prior year annual financial statements, the disclosure for the operating lease commitment was omitted, this has been corrected in the current annual financial statements.
4. Payables from exchange transactions - Certain suspense accounts which were included in the comparative in the prior year, have been cleared. These suspense accounts related to transactions which occurred in prior periods and as a result, they have been cleared against the accumulated surplus of the prior year comparative.
5. Finance Leases - A finance lease contract was omitted in the prior year finance leases schedule, and this has been corrected in the current year through restatement of the comparative.
6. Property, plant and equipment - Some assets (Computer Equipment, Furniture & Office Equipment, and Transport Assets) had been omitted from fixed asset register in 2013. This has been corrected in the current year through restatement of the comparative.

The correction of the error(s) results in adjustments as follows:

* See Note 3 & 41

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41. Prior period errors (continued)		
Statement of financial position	2013	Prior Years
Non-Current Assets		
Property, plant and equipment		
Previously reported	353,573,876	285,064,530
Change in accounting policy - Heritage assets	(563,500)	(563,500)
Prior period error - Finance Lease not recognised	8,446	-
Prior period error - Computer equipment	16,536	-
Prior period error - Furniture and office equipment	23,053	-
Prior period error - Machinery and equipment	18,992	-
Prior period error - Transport assets	371,115	-
	353,448,518	284,501,030
Long term receivable		
Previously reported	222,306	230,599
Prior period error - Long term receivable not recognised	207,528	207,528
	429,834	438,127
Current Assets		
Receivables from exchange transactions		
Previously reported	7,470,097	4,922,286
Prior period error - Reverse R/D Cheques Sus	(105,969)	-
	7,364,128	4,922,286
Non-Current Liabilities		
Finance lease obligation		
Previously reported	195,954	399,287
Prior period error - Finance lease not recognised	7,544	-
	203,498	399,287
Employee Benefit Obligations		
Previously reported	17,362,718	13,444,718
Prior period error - Long service awards not recognised	1,797,000	1,070,207
	19,159,718	14,514,925
Current Liabilities		
Payables from exchange transactions		
Previously reported	13,763,461	17,615,851
Prior period error - IEC Maintenance	(135,361)	(135,361)
Prior period error - Kubusie Clinic	(78,586)	(78,586)
Prior period error - Receipt Reversal Sus	(30,784)	(30,784)
Prior period error - Retention Fees	(6,665)	(6,665)
Prior period error - RSC	(450)	(450)
Prior period error - Small Differences Sus	(31,723)	(31,723)
Prior period error - Fair value adjustment of trade creditors	(198,947)	(198,947)
Prior period error - Reverse R/D Cheques Sus	700	(106,670)
	13,281,645	17,026,665

* See Note 3 & 41

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41. Prior period errors (continued)		
Finance lease obligation		
Previously reported	222,929	321,941
Prior period error - Finance lease not recognised	976	-
	223,905	321,941
Net Assets		
Accumulated surplus	2013	Prior Years
Previously reported	480,262,849	397,185,523
Adjustment to Long term receivables	207,528	207,528
Adjustment to Long service awards	(1,229,044)	(1,070,207)
Adjustment to Payables from exchange transactions	481,816	375,847
Adjustment to Property, plant and equipment	8,446	429,696
Adjustment to Finance Lease	74	-
	479,731,669	397,128,387
Statement of Financial Performance		
Employee related costs		
Previously reported	42,993,191	35,375,273
Adjustment to Long service awards	158,837	-
	43,152,028	35,375,273
Finance costs		
Previously reported	262,164	140,962
Prior period error - Finance lease	54	-
	262,218	140,962
Depreciation and amortisation		
Previously reported	18,551,095	18,070,664
Prior period error - Finance lease	143	-
	18,551,238	18,070,664
General expenses		
Previously reported	38,275,878	26,098,370
Prior period error - Finance lease	(123)	-
	38,275,755	26,098,370
Cash Flow Statement		
Net cash flows from operating activities		
Previously reported	52,526,315	54,874,337
Prior period error - Depreciation and amortisation	143	-
Prior period error - Finance costs	54	-
Prior period error - Movements in retirement benefit assets and liabilities	1,193,207	-
Prior period error - Movements in provisions	(35,837)	-
Prior period error - non cash movements	55,810	-
Prior period error - Receivables from exchange transactions	(630,763)	-

* See Note 3 & 41

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41. Prior period errors (continued)		
Prior period error - Payables from exchange transactions	(375,084)	-
	52,733,845	54,874,337
Net cash flows from investing activities		
Previously reported	(52,700,382)	(48,838,946)
Prior period error - Increase/(Decrease) in long term receivables	(207,528)	-
Prior period error - Proceeds from sale of property, plant and equipment	(2)	-
	(52,907,912)	(48,838,946)
Disclosure		
Commitments		
Operating leases	214,880	-

* See Note 3 & 41

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42. Comparative figures

Retirement benefits was changed to Employee benefit obligations.

The Long Service Award comparative figures have been reclassified from Non-current provisions to Employee benefits obligations. The reclassification is to account for the Long service awards under GRAP 25.

The Trade payables and other payables have been combined in the current year, and due to this the prior had to be reclassified to be aligned with the disclosure for fairer presentation.

The Heritage assets have been reclassified from Property, plant and equipment to Heritage assets. The reclassification is to account for the Heritage assets under GRAP 103 in the current year.

The effects of the reclassification are as follows:

Statement of financial position

Non-Current Liabilities

Provisions	-	567,956
Employee benefit obligation	-	(567,956)

Current Liabilities

Trade and other payables	-	11,253,586
Trade payables	-	(3,203,193)
Other payables	-	(8,050,398)

Non-Current Assets

Heritage assets	-	563,500
Property, plant and equipment	-	(563,500)

43. Risk management

Financial risk management

The Municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Municipality's financial performance. Risk management is carried out by a finance department with the assistance of operating divisions, under policies approved by the accounting officer.

Market risk: currency risk

The Municipality is not exposed to currency as no transactions are negotiated in foreign.

* See Note 3 & 41

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43. Risk management (continued)

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Municipality. Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The Municipality only deposits cash with major banks that have high quality credit standing and limits exposure to any particular counterparty. Trade receivable comprise wide spread consumer base. Credit exposure is controlled by the application of the Municipality's credit control and debt collection policies.

The carrying amount of the financial assets represent the entities maximum exposure to credit risk in relation to these assets. The Municipality's cash and cash equivalents and short term deposits are with high credit quality financial institutions.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2014	2013
Trade and other receivables from exchange transactions	6,431,111	7,364,128
Receivable from non exchange transactions	2,488,920	1,934,003
Cash and cash equivalents	141,067,594	12,809,807
Long term receivables	289,321	429,834
Short term portion of long term receivables	203,211	197,330
Investments	5,007,661	134,692,767

Market risk

Interest rate risk

The Municipality's interest bearing assets are included under cash and cash equivalents. The Municipality income and operating cash flows are substantially independent of changes in market interest rates due to the short term nature of the interest bearing assets.

At year end financial liabilities exposed to interest rate risk were for the DBSA loan of R641,173 (2013: R661,796). Refer to note 15.

Balances with banks, deposits, call accounts and current accounts attract interest at rates that vary with the South African Prime rate. The Municipality's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on the statement of financial performance.

Trade debtors in arrears are linked to the South African Prime rate plus one percent.

Surplus funds are invested with banks for fixed interest rates not exceeding a term of one year. Refer to note 5

Interest rate sensitivity analysis

The sensitivity analysis below was determined based on financial instrument exposures to interest rates at reporting date. For floating rate instruments analysis is prepared assuming the amount of the instrument outstanding at reporting date was outstanding for the whole year.

The basis points adjustment represent managements assessment of the reasonable possible change in interest rate.

There were no changes in the methods or assumptions from one period to the next.

A 100 point increase in rates would result in a decrease of R6,412 (2013: R9,961) in the net surplus for the period.

Liquidity risk

The Municipality's risk relates to funds available for future commitments. The Municipality manages liquidity risk through ongoing review of future commitments, projected grant receipts and cash forecasting. Cash flow forecasts are prepared and borrowing facilities monitored.

* See Note 3 & 41

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44. Events after the reporting date

No events after reporting date that would have a material impact to the readers of the financial statements occurred.

45. Unauthorised expenditure

Unauthorised expenditure	34,737,576	7,604,666
Details of unauthorised expenditure - current year		
Plant acquired but not budgeted for	13,085,340	-
Overspending on budget	21,652,236	-
Details of unauthorised expenditure - prior year		
Overspending on budget	-	7,604,666
	34,737,576	7,604,666

No disciplinary action has been taken yet with regards to the expenditure disclosed above.

46. Fruitless and wasteful expenditure

Opening balance	1,369,844	5,815
Add: Fruitless and wasteful expenditure - current year	45,820	1,364,029
	1,415,664	1,369,844
Categories of fruitless and wasteful expenditure		
Interest paid	24,584	13,345
Penalties	21,236	49,866
Work not done properly	-	1,300,818
	45,820	1,364,029

No disciplinary action has been taken yet with regards to the expenditure disclosed above.

47. Irregular expenditure

Opening balance	10,303,481	6,455,167
Add: Irregular Expenditure - current year	1,937,922	3,848,314
	12,241,403	10,303,481

Details of irregular expenditure – current year

Irregular expenditure on Contracts	SCM processes not followed	1,937,922
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Details of irregular expenditure - prior year

Irregular expenditure on Contracts	SCM processes not followed	3,848,314
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No disciplinary action has been taken yet with regards to the expenditure disclosed above.

* See Note 3 & 41

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48. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government (SALGA)		
Current year subscription / fee	462,005	419,360
Amount paid - current year	(462,005)	(419,360)
	-	-
Material losses		
Current year	7,713,074	2,132,120
Electricity distribution losses as at 30 June 2014 relate to 3,461,359 kWh (2013; 3,948,370.90 kWh), due to environmental and technical factors. In addition to this, the factor of illegal connections which remains a concern for the municipality.		
Audit fees		
Current year subscription / fee	2,210,922	1,952,224
Amount paid - current year	(2,210,922)	(1,952,224)
	-	-
PAYE and UIF		
Current year subscription / fee	5,165,209	2,971,380
Amount paid - current year	(5,165,209)	(2,971,380)
	-	-
Pension and Medical Aid Deductions		
Current year subscription / fee	3,814,769	4,959,843
Amount paid - current year	(3,814,769)	(4,959,843)
	-	-
VAT		
VAT receivable	8,579,550	5,016,497

VAT output payables and VAT input receivables are shown in note 8.

All VAT returns have been submitted by the due date throughout the year.

* See Note 3 & 41

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48. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2014:

30 June 2014	Outstanding less than 90 days	Outstanding more than 90 days	Total
Busika N	195	-	195
Govender HB	1,190	2,354	3,544
Jama B	222	-	222
Kyriacos PG	152	7,217	7,369
Qaba (Nogude) P	100	-	100
	1,859	9,571	11,430

No Councilors had arrear accounts outstanding for more than 90 days at 30 June 2013.

* See Note 3 & 41

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49. Budget differences

Material differences between budget and actual amounts

1. The sale of electricity declined due to illegal connections thus the higher material loss in distribution losses noted under note 48.
2. Budget amount includes anticipated rentals from Mlungisi Mall, which ended up with no occupants.
3. The amount has increased in line with the increase in the debt book. Debtors are not paying and the department is working on handing over and clearance of the indigent debtors.
4. Investments increased due to slow spending on capital projects.
5. This variance is due to late applications for remissions submitted during the year.
6. The difference is the MIG allocation that is used to fund capital projects.
7. The amount includes a public donation and the Mlungisi Mall transferred by Aspire.
8. The decline is as a result of non-payment of fines by the motorists.
9. Depends on customer, each financial year, therefore it is difficult to estimate.
10. The overspending is due to the employment of contract workers that are not budgeted for and the review of job descriptions of the current employees during the period, that result in change in the task grades.
11. Budget include application for 2 full time councillors and MPAC Chairperson not yet approved by MEC.
12. The depreciation could not be fully budgeted for due to the availability of funds, and the capacity in service delivery departments on maintenance sections.
13. The budget and the revised budget did not anticipate the new plant purchased towards the end of the financial year, hence material variance. This will be corrected with the unauthorised expenditure for plant.
14. The budget amount was based on prior year audited figures e.g. in 2012 the finance costs were R 5 844 782.
15. Determined by leave balance at the end of the financial.
16. Repairs and maintenance on electricity street lights and renovations on Municipal Halls, but not all planned repairs were done at year end.
17. The variance is due to the activities planned but not done at year end e.g the amount budgeted for the rental of offices was not used at year end.
18. The amount includes the provision that was made for the infrastructure projects under mayoral intervention, which were then reported to MIG. This amount includes the MIG allocation including the roll-over amount approved through application to National Treasury.

* See Note 3 & 41

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49. Budget differences (continued)

Changes from the approved budget to the final budget

1. Service charges

The sale of electricity for the 1st half of the financial year was already sitting at +70% of the budgeted amount, then a further increase in revenue was anticipated, hence the adjustment in the budget.

2. Property Rates

The budget adjustment was done due to the fact that the original budget was based on prior budget not the actual figures.

3. Government grants & subsidies

To correct the budgeted amount for the grant received from the Department of Sports, Arts and Culture in line with the transfer actually received.

4. Fines

The actual amount received indicated a reduction in collection.

5. Personnel

The increase was trying to incorporate the cost and employee benefits that result from the on-going review of the job description.

6. General Expenses

The adjustment made was the allocation made for the rental of offices for staff accommodation, increased allocation for job creation programme, increase allocation for the valuation roll, a provision made for legal services to deal with legal matters at hand, amount made available to pay the long outstanding debt for ADM services.

7. Capital Expenditure

The adjustment was done to correct the estimated roll over amount, so that the correct approved roll-over can reflect in the Municipal budget.

* See Note 3 & 41